

Central Intelligence Agency



Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

16 February 1988

South Korea's Secret Trade: Lifting the Shroud

25X1

Summary

In 1987, Seoul disclosed the extent of its economic relations with politically sensitive trading partners--the Communist states, Iran, Iraq, Israel, and South Africa--when it published detailed first-quarter import-export data. Our analysis of the figures indicates that direct trade with these countries amounted to just over 6 percent of Seoul's total trade in 1987. Yet this trade accounted for 16 percent of South Korea's imports, concentrating in the critical area of raw materials--oil, cotton, and minerals--that help fuel the country's economic expansion. Seoul's trade with sensitive partners has generally had only a minor impact on the United States--except in the agriculture sector--but export of sensitive technology to the Communist Bloc is a potential concern.

25X1

This memorandum was prepared by [redacted] Office of East Asian Analysis. Information available as of 16 February 1988 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Korea Branch, Northeast Asia Division, OEA, [redacted]

25X1

25X1

EA M 88-20012

25X1

25X1

25X1

25X1

Unusual Disclosure

When South Korea last spring published disaggregated trade data on its third-largest trading "partner"--a block of "other" nations including Iran, Iraq, Israel, South Africa, and the Communist countries--it was the first such disclosure since 1979. Seoul presumably had kept the statistics secret [redacted]

[redacted] The South Koreans also may have wanted to undercut North Korea's case for pressing its Communist allies to stop their trading relationship with Seoul. In any case, we have no reporting on the rationale for the one-time publication of these statistics. It may have been unintentional or perhaps approved by one government agency before another subsequently objected to it. [redacted]

25X6
25X6

25X1

Sensitive Trading Partners

We estimate South Korea's sensitive direct trade accounted for just over 6 percent--or more than \$2.4 billion--of total trade last year.¹ It accounted for just 2 percent of exports but an important 16 percent of imports. Imports were especially significant in the critical areas of raw materials--oil, cotton, and minerals--that help fuel South Korea's economic expansion. Three countries--China, Iran, and South Africa--dominated this trade:

- China was South Korea's largest "secret" partner, with over \$1 billion in direct trade in 1987. This figure confirms estimates we derived from other sources, which put the total (direct plus indirect) trade last year at roughly \$2 billion, a fivefold increase since 1981. In past years, indirect trade, primarily through Hong Kong, has amounted to slightly more than half of Sino - South Korean trade. By our projections, South Korea last year recorded \$750 million in direct imports from China--coal, cotton, silk, foodstuffs, grain, and other raw materials. The figure probably represents a bargain, with Seoul reaping the advantages of low shipping costs--port-to-port across the Yellow Sea--and cheap Chinese labor. In return, South Korea directly exported to China roughly \$250 million in goods--mostly industrial products such as iron, steel, and chemicals.
- Petroleum imports dominated trade with Iran. According to the figures, Tehran provided more than one-tenth of Seoul's petroleum needs, a slightly lower figure than we had previously estimated. South Korea exported \$133 million worth of

¹ All trade figures have been calculated on an annualized basis using first-quarter 1987 data published in Monthly Foreign Trade Statistics (Office of Customs Administration, Republic of Korea), March 1987. The new trade figures do not tell the entire story. They cover only direct trade, and we know that indirect trade through third countries--via Hong Kong in the case of trade with China, and Western Europe in the case of the Bloc countries--is a significant part of true trade with "other" partners.

25X1

25X1

25X1

goods to Iran, primarily refined petroleum products. The official statistics do not show exports of military equipment or dual-use items to Tehran [redacted]

[redacted] The figures either were not included or were hidden under other categories, as apparently has been done in the past.

25X1

- The statistics show a stronger trade relationship with South Africa in 1987 than projected in estimates of trade volume. Trade totals reached roughly \$500 million, nearly double previous estimates by the Embassy in Seoul. Textiles and electronics dominated exports to South Africa, while fuel, oil, iron, steel, and strategic minerals made up the bulk of imports. [redacted]

25X1

Trade with the remainder of countries normally in the "other" category was relatively insignificant. These countries contributed less than 20 percent of South Korea's total secret trade, according to our projections:

- Trade with Eastern Europe last year totaled about \$220 million.
- Trade with the remaining sensitive economic partners, such as Israel, Iraq, and Vietnam, was miniscule, with no country exceeding the \$70 million level. [redacted]

25X1

Trade Trends

Seoul's economic relations with its "other" trading partners have roughly doubled since 1981, albeit from a low base. We believe trade will continue to grow vigorously, particularly with the Communist countries. Seoul has been actively encouraging an expansion of trade ties to China and the Eastern Bloc countries, which appear receptive to closer trade relations with Seoul:

- Growth in China trade probably will be the most dramatic--Seoul is already Beijing's 11th-largest trade partner. South Korean President-elect Roh Tae Woo, who takes office on 25 February, has stressed his interest in strengthening ties to Beijing, suggesting his administration will further boost bilateral trade.
- Contacts with Eastern Europe are on the upswing--South Korea has held several trade fairs in Bloc countries over the past few years. Hungary appears to be the most promising prospect for increased trade: by March, Seoul and Budapest will exchange trade offices, a first for South Korea in a Communist country. Poland, Yugoslavia, and East Germany have also expressed interest in similar arrangements with Seoul.

South Korea's growing international economic importance may weaken the impact of North Korean protests against Communist-Bloc trade with Seoul, which has been a major obstacle to closer ties in the past. The decision by most socialist countries to participate in the 1988 Seoul Olympics may also open the way for increased trade contacts. [redacted]

25X1

25X1

25X1

Implications for the United States

Seoul's growing trade with the "other" countries has generally had only a minor impact on the United States. The major exceptions have been in agricultural trade, particularly China's corn exports to South Korea. In this case, the United States has gone from a near-monopoly position in South Korea to a significantly reduced, albeit still majority, share. For most other products involved in South Korea's sensitive trade, however, the United States is not a major supplier. [REDACTED]

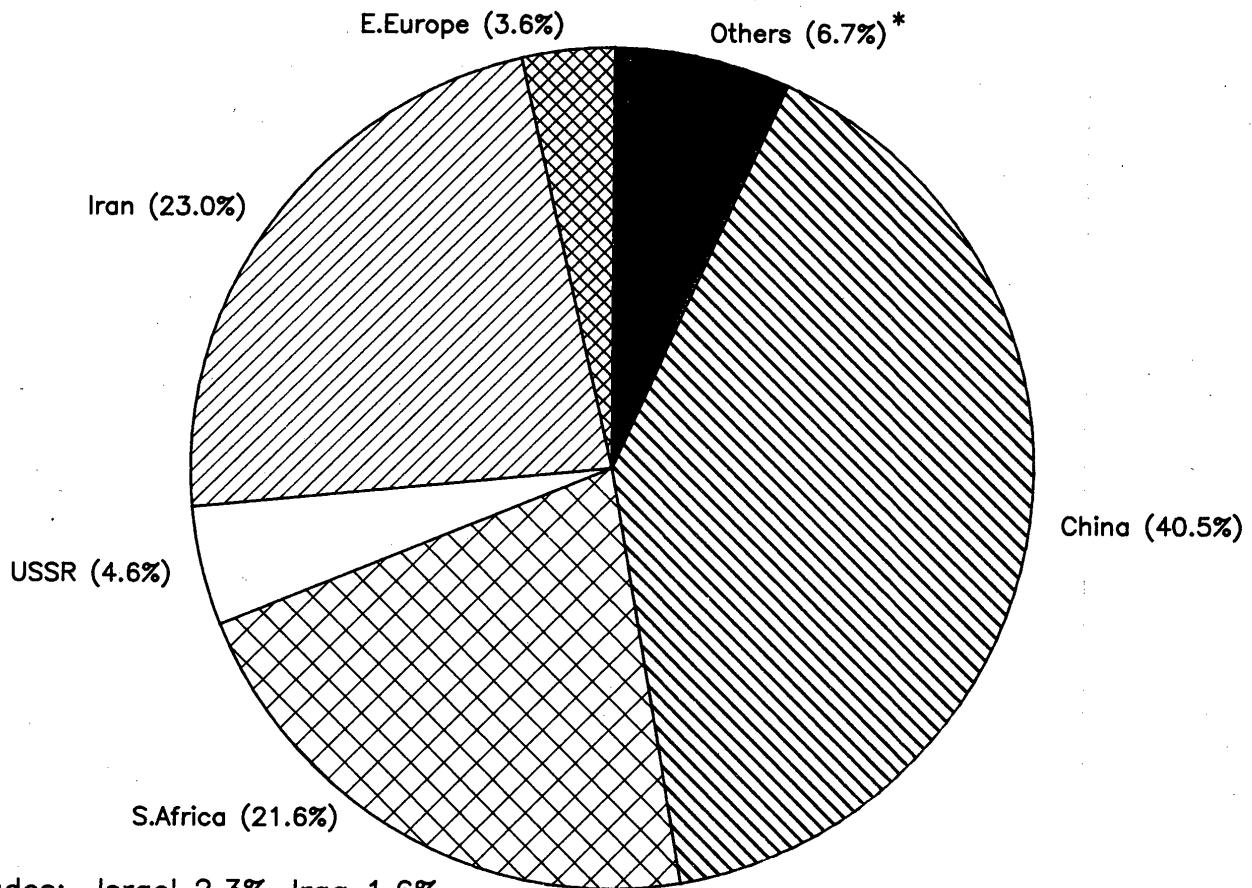
25X1

Of more potential concern than competition for export markets is the likelihood that South Korea's rapidly growing trade with Communist countries could make it easier for South Koreans to mask illicit trade as innocuous transactions, as they may have done with Iran. The trade figures we examined contained no "smoking guns," but the export of sensitive high-technology items to the Soviet Bloc remains a concern. [REDACTED]

25X1

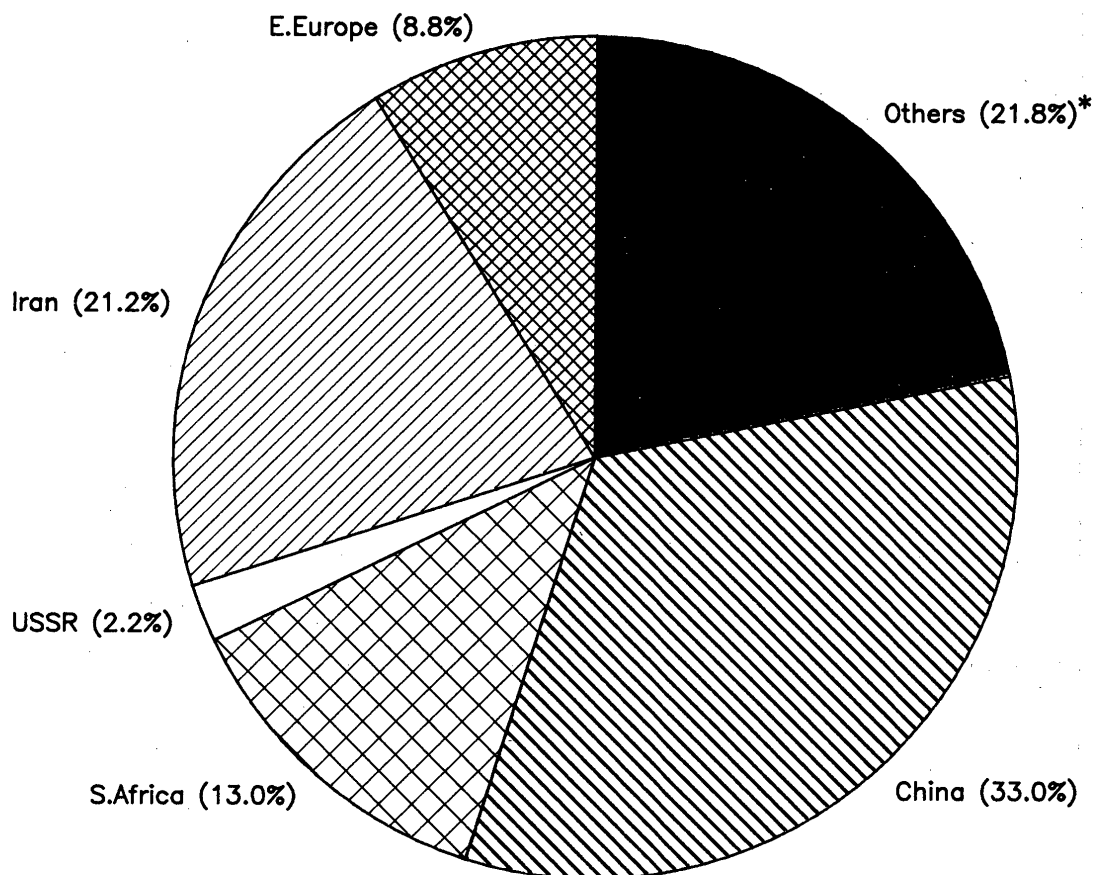
25X1

Seoul's Total Direct Trade With Its "SECRET" Partners - 1987



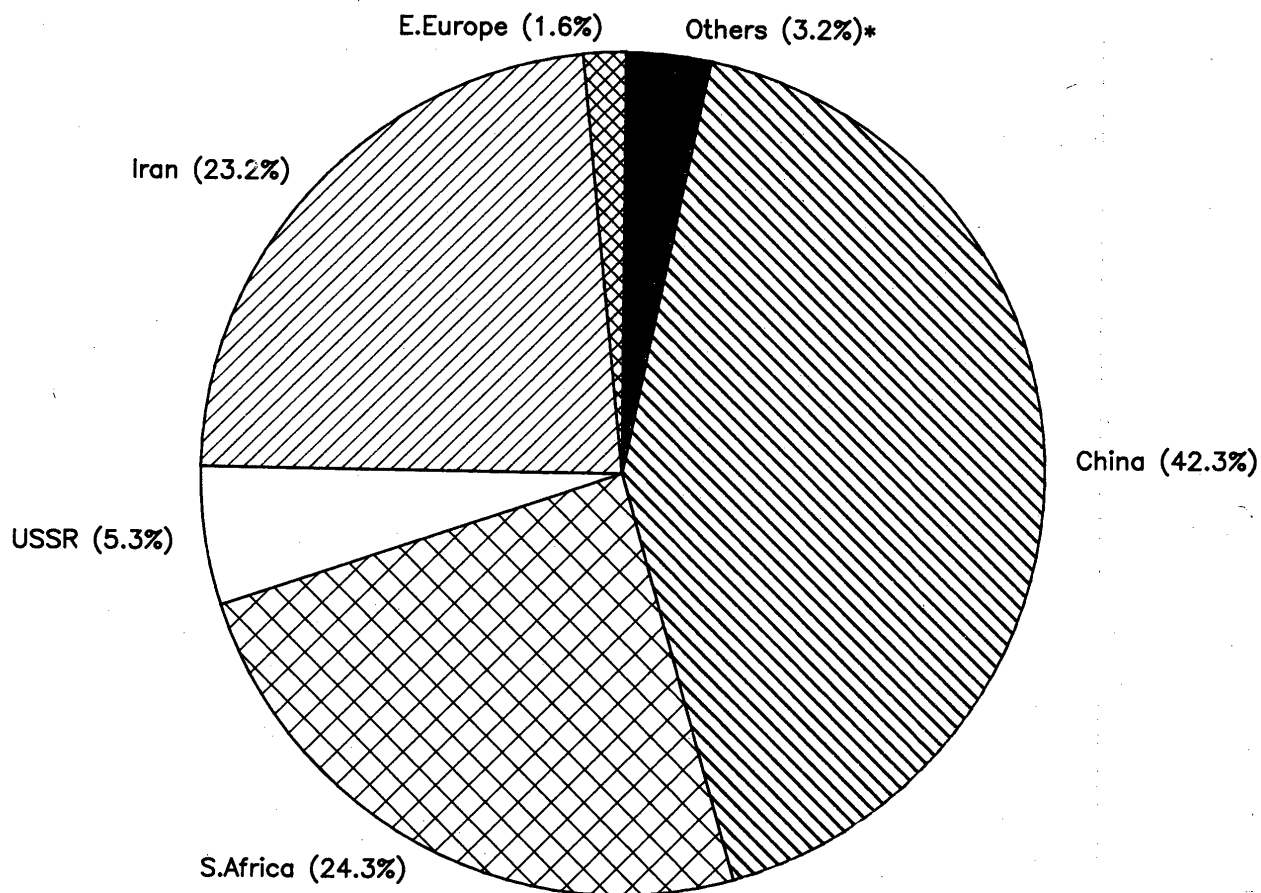
*Includes: Israel 2.3%, Iraq 1.6%,
Vietnam 2.7%, Cuba .05%, and
Cambodia .05%.

Seoul's Total Direct Exports to Its "SECRET" Partners - 1987



*Includes: Israel 6.6%, Iraq 8.1%,
and Vietnam 7.1%.

Seoul's Total Direct Imports from Its "SECRET" Partners - 1987



*Includes: Israel 2%, Vietnam 1%,
Cuba 0.1%, and Cambodia 0.1%.

South Korea's Direct Trade with
its "Secret" Trading Partners for 1987
(In Millions of US Dollars)

	1st Quarter	Annualized		1st Quarter	Annualized
IRAN			SOVIET UNION		
Exports	33.32	133.3	Exports	3.47	13.88
Imports	102.53	410.14	Imports	23.6	94.41
Total	135.85	543.44	Total	27.1	108.29
IRAQ			YUGOSLAVIA		
Exports	9.58	38.33	Exports	0.74	2.97
Imports	0	0	Imports	0.45	1.82
Total	9.58	38.33	Total	1.19	4.76
ISRAEL			CZECHOSLOVAKIA		
Exports	13.53	54.12	Exports	1.05	4.2
Imports	8.85	35.41	Imports	1.9	7.6
Total	22.38	89.53	Total	2.94	11.76
CHINA			HUNGARY		
Exports	51.91	207.64	Exports	1.59	6.38
Imports	187.28	749.12	Imports	1.47	5.9
Total	239.19	956.76	Total	3.07	12.29
SOUTH AFRICA			CUBA		
Exports	20.38	81.52	Exports	0	0
Imports	107.46	429.84	Imports	0.55	2.2
Total	127.84	511.36	Total	0.55	2.2
VIETNAM			BULGARIA		
Exports	11.16	44.64	Exports	0.17	0.68
Imports	5	20	Imports	0.74	2.96
Total	16.17	64.69	Total	0.91	3.64
EAST GERMANY			RUMANIA		
Exports	6.26	25.04	Exports	0.03	0.11
Imports	1.15	4.6	Imports	0.51	2.06
Total	7.41	29.64	Total	0.54	2.17
POLAND			CAMBODIA		
Exports	3.95	15.8	Exports	0.01	0.04
Imports	1.05	4.2	Imports	0	0
Total	5	20	Total	0.01	0.04

25X1

25X1

SOUTH KOREA'S SECRET TRADE: LIFTING THE SHROUD

25X1

DISTRIBUTION:

Department of State

- 1 - JOHN MERRILL, INR/EAP, RM 8840, DEPT. OF STATE
- 1 - TONY INTERLANDI, OFFICE OF KOREAN AFFAIRS, RM 5315, DEPT. OF STATE

Commerce

- 1 - SCOTT GODDIN, OFFICE OF PACIFIC BASIN, RM 6854, DEPT. OF COMMERCE
- 1 - KIM FITZGERALD, OFFICE OF INTELLIGENCE LIAISON, RM 6854, DEPT. OF COMMERCE

USTR

- 1 - SANDRA KRISTOFF, DEPUTY ASSISTANT TRADE REPRESENTATIVE, RM 322, USTR

Treasury

- 1 - RANDALL FORT, OFFICE OF THE SPECIAL ASST. TO THE SECRETARY FOR NAT'L SECURITY, RM 4324, DEPT. OF TREASURY

Internal

- 1 - DIRECTOR, DCI/DDCI/EXECUTIVE STAFF, RM 7E12, HEADQUARTERS
- 1 - NATIONAL INTELLIGENCE OFFICER, EAST ASIA, RM 7E62, HEADQUARTERS
- 1 - NATIONAL INTELLIGENCE OFFICER, ECONOMICS, RM 7E47, HEADQUARTERS
- 1 - CHIEF, [] DO, RM 3D01, HEADQUARTERS
- 1 - CHIEF, EA [] RM 5E18, HEADQUARTERS
- 1 - CHIEF, OEA/NEA/KOREA, RM 4G43, HEADQUARTERS
- 1 - CHIEF, OEA/NEA/JAPAN, RM 4G31, HEADQUARTERS
- 1 - CHIEF, OEA/NEA/STI, RM 4G43, HEADQUARTERS
- 1 - CHIEF, OEA/NEA/DIVISION, RM 4G43, HEADQUARTERS
- 1 - CHIEF, OEA/CHINA DIVISION, RM 4G20, HEADQUARTERS
- 1 - CHIEF, OEA/SEA DIVISION, RM 4F24, HEADQUARTERS
- 1 - DIRECTOR, OFFICE OF EAST ASIAN ANALYSIS, RM 4F18, HEADQUARTERS
- 1 - CHIEF, OEA/PRODUCTION, RM 4G48, HEADQUARTERS
- 1 - DDI, RM 7E44, HEADQUARTERS

25X1

25X1

25X1

- 1 - SENIOR REVIEW PANEL, RM 5G00, HEADQUARTERS
- 1 - OCA REGISTRY, OFFICE OF CONGRESSIONAL AFFAIRS, RM 7B24,
HEADQUARTERS
- 1 - PDB STAFF, RM 7F30, HEADQUARTERS
- 6 - CONTROL BRANCH, OFFICE OF CURRENT PRODUCTION AND ANALYTIC
SUPPORT, RM 7G07, HEADQUARTERS
- 1 - INTELLIGENCE LIAISON STAFF, OFFICE OF CURRENT PRODUCTION AND
ANALYTIC SUPPORT, RM 7G50, HEADQUARTERS
- 1 - CHIEF, PRODUCT EVALUATION STAFF, RM 2F42, HEADQUARTERS
- 1 - NATIONAL INTELLIGENCE COUNCIL, ANALYTIC GROUP, RM 7E47,
HEADQUARTERS
- 1 - CHIEF, DDO/EA DIVISION, RM 5D00, HEADQUARTERS

25X1

25X1